

SURREBUTTAL TESTIMONY OF
WILLIE J. MORGAN, P.E.
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-319-E
IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC
FOR ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS AND
REQUEST FOR AN ACCOUNTING ORDER

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Willie J. Morgan and my business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) as the Deputy Director of the Utility Rates Department.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?

A. Yes. I filed direct testimony and one (1) exhibit with the Public Service Commission of South Carolina (“Commission”) on February 26, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to respond to certain portions of rebuttal testimony of Duke Energy Carolinas, LLC (“DEC” or “Company”) witnesses Kim Smith and Steven Capps. My surrebuttal testimony will specifically address the following adjustments to:

1) Amortize deferred cost balance related to the Carolinas West Control Center;

- 2) Amortize deferred cost balance related to the W.S. Lee Combined Cycle Plant;
- 3) Adjust reserve for end of life nuclear costs;
- 4) Adjust for Lee Nuclear amortization;
- 5) Amortize deferred cost balance related to SC Advanced Metering Infrastructure technology (“AMI”); and
- 6) Normalize for storm costs.

Q. PLEASE EXPLAIN WHY ORS’S ADJUSTMENTS TO AMORTIZE THE DEFERRED COST BALANCES RELATED TO THE CAROLINAS WEST CONTROL CENTER, W.S. LEE CC COMBINED CYCLE, AND SC AMI ARE APPROPRIATE.

A. It is important to note that the Company provided no justification for the amortization period the Company recommends for each deferred cost balance. And, absent the approval of an accounting order establishing the regulatory asset, the Company would not be able to recover all the costs requested because a portion of each deferral balance was incurred outside of the Test Year.

It is within this Commission’s discretion to set the amortization period over which a deferral account will be recovered. It is reasonable to base the amortization period upon the life of an underlying asset because that is the period which it is anticipated to benefit the customer. ORS’s recommendation for amortization period for each of the deferred balances is consistent with the service life of the associated asset.

ORS recommended amortization period remains as follows:

Adjustment #	Adjustment	ORS Amortization Period
7	Carolinas West Control Center	30 years
13	W.S. Lee Combined Cycle Plant	39 years
19	SC AMI	15 years

The effect on the revenue requirement of the amortization for the three items listed is lessened and the combined effect does not significantly impact rates.

Q. DOES THE REBUTTAL BY DEC WITNESS CAPPS CHANGE ORS’S POSITION ON THE COMPANY’S REQUEST TO ESTABLISH A RESERVE FOR END OF LIFE NUCLEAR COSTS?

A. No. The Company desires to establish a reserve fund for end of life nuclear costs not captured in its decommissioning studies using estimated costs that are not tied to a specific time for the retirement of its nuclear fleet. The Company’s request is premature because both the amount of the costs and timeframe for the nuclear fleet retirement are uncertain. To my knowledge, the Nuclear Regulatory Commission (“NRC”) has yet to deny an applicant’s request for a renewal of their license. In fact, the Company has already experienced a successful “subsequent license renewal” at its Oconee Nuclear Station and other locations. The Company attempts to make its projections based on limited information and many assumptions, making the costs both unknown and not measurable within a degree of reasonable certainty. ORS recommends the Commission reject the Company’s request to require customers to pay for a reserve fund that is based on events that may or may not occur in the manner being projected by DEC and costs that are estimated.

Q. DOES THE REBUTTAL TESTIMONY PROVIDED DEC WITNESS KIM SMITH CHANGE THE ORS RECOMMENDATION THAT THE COMMISSION NOT ALLOW A RETURN ON DEBT OR EQUITY FOR THE PRE-CONSTRUCTION COSTS ASSOCIATED WITH THE LEE NUCLEAR PROJECT?

A. No. The Company has requested recovery of pre-construction costs for Lee Nuclear in a similar manner as the Company has requested recovery of other incurred costs. The pre-construction costs for Lee Nuclear are not extraordinary and the customer will not benefit from the Company's incurrence of the costs. The Company's comparison of the Lee Nuclear Project to that of South Carolina Electric & Gas Company's ("SCE&G") V.C. Summer Units 2 and 3, ironically betrays the fact that the Company's proposed cost recovery would likewise saddle its customers with all of the nuclear plant's risk. The V.C. Summer Units 2 and 3 construction project case was filed by SCE&G as an abandonment case under the Base Load Review Act ("BLRA"). Under the now repealed BLRA, a utility may be allowed to recover the costs of capital if the decision to abandon was found to be prudent.

DEC has put forth the Lee Nuclear Project before the Commission in a general rate case. Therefore, the allowance of a return on the development cost is not supported by the method of the request. Simply put, the Lee Nuclear Project will neither be used and useful nor provide electricity to DEC's customers; therefore, the Company's investment does not meet the criteria to be placed in "plant in service." Likewise, the investment is not properly categorized as "property held for future use" or "construction work in progress." Thus, the investment does not belong in rate base and is not entitled to a return. In Order No. 1983-92, this Commission ruled on the exact same set of facts when DEC abandoned the

1 construction of Cherokee Units 2 and 3. In that Order, the Commission allowed recovery
2 of costs, but denied rate base treatment which afforded an equitable sharing of the costs
3 between the shareholders and the customers. Customers should not have to pay a return
4 on a cancelled nuclear project when they will not receive a benefit. It is not appropriate for
5 the Company to be permitted to earn a return on the unamortized balance of the pre-
6 construction costs for the Lee Nuclear Project and ORS recommends the risks of the Lee
7 Nuclear Project be equitably shared between the DEC shareholders and its customers
8 through the disallowance of a return on debt and equity.

9 **Q. PLEASE EXPLAIN WHY ORS DISAGREES WITH DEC WITNESS SMITH'S**
10 **ADJUSTMENT TO NORMALIZE STORM COSTS.**

11 **A.** Company witness Smith in her rebuttal testimony accepts ORS' recommended
12 method for determining the amount of the storm restoration expense adjustment in the Test
13 Year. However, the Company's adjustment adds an inflation adjustment to determine its
14 ten-year average storm expense adjustment amount. The Company claims an inflation
15 adjustment is warranted to mitigate the impact of regulatory lag. ORS recommends the
16 Commission reject this assertion as it shifts all risk away from the Company and onto the
17 customers. The inflation adjustment proposed by the Company is not known and
18 measurable, speculative, and is based on generalized data for the economy.

19 **Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON**
20 **INFORMATION THAT BECOMES AVAILABLE?**

21 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
22 testimony should new information not previously provided by the Company, or other
23 sources, become available.

- 1 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**
- 2 **A.**Yes, it does.